

COMMISSIONERS OF ST. MICHAELS
FINANCIAL STATEMENTS WITH
SUPPLEMENTAL INFORMATION
JUNE 30, 2016

COMMISSIONERS OF ST. MICHAELS
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Lank, Johnson & Tull, CPAs is a full service Delaware accounting firm specializing in tax planning and audit services.

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Town of St. Michaels, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Commissioners of St. Michaels (the Town), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Commissioners of St. Michaels, as of June 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the 10 year pension schedule required by GASB 68 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commissioners of St. Michaels' basic financial statements. The Analysis of Revenues and Expenditures/Expenses - Budget and Actual - All Fund Types (Schedules A and B), and the Statement of Revenues, Expenses, and Changes in Fund Net Position - Budget and Actual - Enterprise Fund (Schedule C), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules referred to in the previous paragraph are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, those schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016, on our consideration of the Commissioners of St. Michaels' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commissioners of St. Michaels' internal control over financial reporting and compliance.



Seaford, Delaware
October 3, 2016

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

This section of The Commissioners of St. Michaels' annual financial report presents the discussion and analysis of the Town's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the Town's financial statements, which follows this section.

BASIC FINANCIAL STATEMENTS

This report provides both long-term and short-term information about the Town's overall financial status. The fund financial statements focus on the individual parts of the Town government, reporting the operations of the Town in more detail than the government-wide statements. Both perspectives (government-wide and individual fund) allow the user to address relevant questions, broaden the basis for comparison (year to year or government to government) and enhance the Town's accountability.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the Town as a whole and are designed to provide readers with a broad overview of the Town in a manner similar to a private sector business. The statement of net position includes all of the government's assets and liabilities reported using the full accrual basis of accounting. The statement of activities accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

The two government-wide statements report the Town's net position and how it has changed. Net position, the difference between the Town's assets, deferred outflows, liabilities and deferred inflows are one way to measure the financial health of the Town. Over time, increases or decreases in the Town's net position are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Town, one needs to consider other non-financial factors such as changes in the Town's property tax base and condition of the Town's infrastructure.

The government-wide financial statements of the Town are divided into two categories:

Governmental Activities - Most of the Town's basic services are included here, such as police and other public safety services, parks and recreation, public works, planning and zoning, and general administration. Property and state-shared taxes, charges for services, and state grants finance most of these activities.

Business-type Activities - The Town's water operations are reported here. Fees are charged to water customers to help cover the costs of providing the services.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Town's most significant funds. The focus is on major funds rather than fund types.

The Town has two types of funds:

Governmental Fund - The General Fund is the Town's only governmental fund, which focuses on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the governmental fund statements, or schedules immediately following the governmental fund statements, that explain the relationship (or differences) between them.

Proprietary Funds - Services for which the Town charges customers a fee are generally reported in proprietary funds. These funds, like the government-wide statements, provide both long-term and short-term financial information. The Town's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but the fund financial statements provide more detail and additional information, such as cash flows. The Town utilizes enterprise funds to account for its water operations.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

The Town's combined net position increased by 5% from 2015 to 2016. (See table below) General fund net position decreased by 1.7%, while the business-type fund increased by 78%. The changes are primarily the result of the Town being able to meet operational costs as well as to fund capital improvements with current revenues, prior year reserves, grant contributions, and investment earnings, without incurring any substantial new debt.

Commissioners of St. Michaels

Net Position

(in millions)

	Governmental		Business-Type		Total		Total
	2016	2015	2016	2015	2016	2015	Percentage Change
Current and Other Assets	10.42	10.87	0.51	0.41	10.93	11.28	(3%)
Capital Assets	10.62	10.45	4.21	3.02	14.83	13.47	10%
Deferred Outflows	0.12	0.02	0.02	-	0.14	0.02	600%
Total Assets and Deferrals	21.16	21.34	4.74	3.43	25.90	24.77	5%
Long-Term Debt	-	-	1.47	1.52	1.47	1.52	(3%)
Other Liabilities	1.12	0.95	0.18	0.17	1.30	1.12	16%
Total Liabilities	1.12	0.95	1.65	1.69	2.77	2.64	5%
Net Position							
Capital Assets Net of Debt	10.62	10.45	2.74	1.50	13.36	11.95	12%
Restricted	8.09	8.35	0.33	0.23	8.42	8.58	(2%)
Unrestricted	1.33	1.59	0.02	0.01	1.35	1.60	(16%)
Total Net Position	20.04	20.39	3.09	1.74	23.13	22.13	5%

The Town's total revenues (excluding transfers) increased by 49% to \$3.76 million (See table below). Revenue from business-type activities increased by 165% to \$1.75 million, which is due to capital grants received from DHCD and MDE for the arsenic removal project. General Governmental revenues increased by 8% to \$2.01 million, which is primarily attributable to an increase in State and County shared revenues and real estate taxes.

The total cost of all programs and services increased by 7% to \$2.76 million. The costs of business-type activities increased by 18% to \$.60 million, which was primarily due to an increase in arsenic media replacement costs. The costs of governmental-type activities increased by 4% to \$2.16 million, which is primarily due to an increase in various line item expenditures. The governmental expenses in the table on the next page are shown net of fees, charges, and grants.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Commissioners of St. Michaels
Change in Net Position
(in millions)

	Governmental		Business-Type		Total		Total
	2016	2015	2016	2015	2016	2015	Percentage Change
Program Revenue							
Charges for Services	-	-	0.63	0.66	0.63	0.66	5%
Capital Grants	-	-	1.12	-	1.12	-	100%
General Revenue							
Taxes	1.96	1.81	-	-	1.96	1.81	8%
Investment Income	0.05	0.05	-	-	0.05	0.05	-
Total Revenue	2.01	1.86	1.75	0.66	3.76	2.52	49%
Program Expenses - Net							
General	0.36	0.45	-	-	0.36	0.45	(20%)
Police	1.03	0.91	-	-	1.03	0.91	13%
Public Works	0.77	0.72	-	-	0.77	0.72	7%
Water	-	-	0.60	0.51	0.60	0.51	18%
Total Expenses	2.16	2.08	0.60	0.51	2.76	2.59	7%
Excess (Deficiency)	(0.15)	(0.22)	1.15	0.15	1.00	(0.07)	153%
Transfer In/(Out)	(0.20)	(0.05)	0.20	0.05	-	-	-
Change in Net Position	(0.35)	(0.27)	1.35	0.20	1.00	(0.07)	153%
Net Position - Beginning	20.39	20.66	1.74	1.54	22.13	22.20	-
Net Position - Ending	20.04	20.39	3.09	1.74	23.13	22.13	5%

GENERAL FUND BUDGETARY HIGHLIGHTS (For purposes of the MD&A presentation, the budgeted amounts refer to general operational expenditures, and capital funds net of prior year funding).

The original budget was amended once during the year.

Actual revenues of \$3.11 million were over budgeted revenues by \$0.54 million. This favorable variance is primarily due to grants for infrastructure improvements and a pass-through grant for the St. Michaels Community Center not in the budget.

Actual expenditures in the amount of \$3.32 million came in \$0.28 million over budgeted amounts. This unfavorable variance is due primarily to the expense of the pass-through grant for the St. Michaels Community Center.

WATER FUND BUDGETARY HIGHLIGHTS

Actual revenue of \$0.63 million was under budgeted revenue by \$0.14 million. Expenditures came in \$0.31 million under budgeted amounts. This favorable variance is due to various line item expenses coming in under budget. Overall, the water fund had a favorable budget variance of \$146,007.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the Town had \$14.83 million invested in capital assets, including police equipment, parks and recreation facilities, buildings, land, vehicles, and water system improvements. This amount represents a net increase (additions, deductions, and depreciation) of \$1.36 million or 10% from the prior year.

Commissioners of St. Michaels
Capital Assets Net of Depreciation
(in millions)

	Governmental		Business-Type		Total	
	2016	2015	2016	2015	2016	2015
Land and Improvements	2.09	2.01	-	-	2.09	2.01
Buildings	0.87	0.89	-	-	0.87	0.89
Equipment	0.13	0.12	-	-	0.13	0.12
Improvements	7.36	7.21	-	-	7.36	7.21
Vehicles	0.17	0.22	-	-	0.17	0.22
Water	-	-	4.21	3.02	4.21	3.02
Total Capital Assets	10.62	10.45	4.21	3.02	14.83	13.47

Note 5 of the Notes to the Basic Financial Statements gives further details of the Town's capital asset activity.

Debt

At year-end, the Town had \$1.47 million in bonds and notes outstanding, versus \$1.52 million in 2015, a decrease of \$0.05 million or 3% under last year.

Commissioners of St. Michaels
Debt
(in millions)

	Governmental		Business-Type		Total	
	2016	2015	2016	2015	2016	2015
USDA - Water Bonds	-	-	0.39	0.44	0.39	0.44
Maryland CDA - Water Tower	-	-	0.19	0.20	0.19	0.20
Maryland Department of Environment - Arsenic Removal	-	-	0.84	0.88	0.84	0.88
Maryland Department of Environment - Arsenic Removal II	-	-	0.05	-	0.05	-
Total Debt	-	-	1.47	1.52	1.47	1.52

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Note 6 of the Notes to the Basic Financial Statements gives further details of the Town's debt activity.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic climate remains relatively unchanged from the latter half of 2008. Fixed costs associated with long-term infrastructure projects cannot be reduced while the revenues from investments and taxes are projected to remain at the low levels set in FY 2010. The State's reduction to local governments in the Highway User revenues and Police Protection grants also continues. These funding reductions continue to be exacerbated by an interest rate of less than one percent. These losses required the Commissioners to take the following approach in balancing the budget for the Town. The Commissioners have:

1. Reviewed and reduced expenditures not essential to the core operations of the Town;
2. Reviewed and considered the services currently provided to citizens;
3. Reduced town debt in each of the past two fiscal years;
4. Utilized funding from prior years' reserves.

In an effort to reduce debt payments owed by the Town, the Commissioners amended the FY2011 budget by paying off the balance of the 2006 Public Improvement Bond early. The Commissioners transferred the funds to pay off the debt from the Electric Utility Proceeds, reducing the fund balance by \$4,575,594. This debt retirement then allowed the Commissioners to reduce the tax rate in FY2012 by \$.06/\$100, to \$.58/\$100, and by another \$.06/\$100, to \$.52/\$100 in FY2013, and by \$.07/\$100 to \$.45/\$100 in FY2014, for a total reduction of 19 cents per \$100 of assessed value in this three year period. In FY2016, the Commissioners were able to maintain the \$.45 tax rate by again funding some of the capital expenditures with Prior Year Reserves.

The Town's real estate tax (FY2016) is 45 cents per \$100 of the State's assessment of the property values. The Town's assessable base dropped from \$263,587,102 to \$246,092,016, a decrease of \$17,495,086 in assessable base, which correlates into a shortfall of \$78,728 in tax revenues from FY2014 to FY2015 at the tax rate of \$.45. This reduction was offset from Prior Year Reserves. In FY2016 the Town saw a modest assessable base increase of \$2.845 million, again making up budget shortfalls with Prior Year Reserves.

Also, since FY2012, both the Public Works and Administrative Departments had been operating with one less employee, for a total decrease since FY2010 of 2 people in each department. In FY2015, the Commissioners added a Communications Manager position to the Administrative Department. This hire has enabled the Town to work more effectively in enhancing tourism in St. Michaels, which is the economic engine of the Town, as well as developing a local email list enabling the Town to communicate with the Town residents on important local matters.

The Commissioners also implemented a new refuse collection policy in FY2011 that includes curbside recycling and takes refuse removal to one day a week. This policy has reduced the amount of refuse being hauled to the landfill by approximately 50% and has freed up the three public works crewmembers one additional day per week.

Legal fees for FY2016 remained low in the Administrative Department, however, due to an ongoing zoning case, it is anticipated that legal fees in the Planning & Zoning Department will remain steady in FY2017. Administrative legal fees should remain low in FY2017.

It is important to note that the funds received from the sale of the Town's electric distribution system may not be used to offset any general shortfall of revenue. The purchase price paid by Choptank Electric Cooperative, Inc. for the Town's electric distribution system was \$8.2 million, paid to the Town in 2006, and \$400,000 paid annually for ten years with zero stated interest. All net revenues from the sale of the system are restricted by the Town Charter, which states:

*The funds (from the sale of the system) thus transferred to the Town's general fund shall be segregated and such funds, together with all earnings thereon, shall be used solely for such **capital improvements** by the Town as deemed appropriate by the Town Commissioners from time-to-time. (See Charter of the Town of St. Michaels, §C-62.1, emphasis and explanation added.)*

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

There are also several impending multi-year impacts to the Town's finances related to the Water Department. The St. Michaels well and distribution system serves not only the Town of St. Michaels, but also the unincorporated county communities of Rio Vista and Bentley Hay. In the next decade, it is projected that the system may need:

- a new well to provide adequate future water service and backup of current water supplies;
- a new water storage tower;
- inspection and updating of the distribution lines; and
- inspection and updating of the current water storage towers.

In addition to the above costs, problems continue with the maintenance of the arsenic removal plants. The corrective actions needed to maintain the system since the expiration of the maintenance contract in 2012 necessitate a continued budget increase in subsequent years. The Town has applied for and has received assistance from the Maryland Department of the Environment for help in dealing with the difficult arsenic removal system issue. The grant is in the amount of \$1,357,000, a Revolving Loan Fund loan in the amount of \$860,727, with loan forgiveness in the amount of \$143,000. The Town also received a grant in the amount of \$300,000 from the DHCD to help offset the new debt service and help minimize water rate increases. In FY2016, work commenced on the rehabilitation of the arsenic removal plants and the Marengo Street well was put back on line. Work is expected to be complete in FY2017. Chemical costs are expected to rise with the new filtration system in place and rate increases may result from the increased operational costs.

Water rates were increased by 20% in Fiscal Year 2014 in order to pay for necessary maintenance to the water towers.

A Community Development Block Grant made by the Town in 1985 to Associated Investors, a Maryland general partnership, came due to the Town in August of 2010. Associated Investors has sold the property to Osprey Development Company, at which time the loan was paid off and re-loaned to the purchaser. The new purchaser has demolished the building and constructed 40 workforce housing units. The units enjoy a nearly 100% occupancy. As long as the property remains as such, the loan will not have to be repaid.

During FY2016 the Town received a grant from the DHCD on behalf of the Community Center to enable the St. Michaels Community Center to purchase their property.

Although progress is hampered by the loss of revenue, the Commissioners continue to pursue the revitalization of the Commercial District. A broad scale revitalization effort began in 2001 with the designation of the area as a Designated Neighborhood in the State of Maryland's Neighborhood Business Development Program. As detailed in the Community Legacy Plan of 2008, the renovation of Muskrat Park, the construction of the St. Michaels Nature Trail and the long-range plans for the improvement of the Fremont Street Corridor all further the Commissioners' efforts to revitalize the commercial core of the Town and to enhance the quality of life for the Town's residents and visitors alike. The multi-year 5.5 million-dollar street rehabilitation project is in Phase 5 of the five-phase plan to rehabilitate and reconstruct 23 of the Town's streets, and was completed in FY2015. Included in the project was the installation of a bump out and screening of the Acme parking lot as well as installation of brick sidewalk on Fremont from Railroad to Carpenter Alley. The Town became a Sustainable Community with the Maryland Office of Planning in FY2014.

During FY2016 the Commissioners purchased 124 S. Fremont Street with the intention of using it for governmental facilities, possible uses include Police, Town Office and or parking. The Commissioners also declared both 101 and 113 Conner Street as surplus property, both were sold, with the closing for 101 Conner to be in FY2017.

Capital projects completed by the Town in FY2016 include the engineering for Phase VI of the street rehabilitation project, alley reconstruction, the purchase of a new gas pump for the Public Works and Police Departments, maintenance of the Boy Scout Cabin, significant paving repairs to Perry Cabin Drive, the purchase of tasers and a K-9 to aid the Police department in their efforts of the protection of the town.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

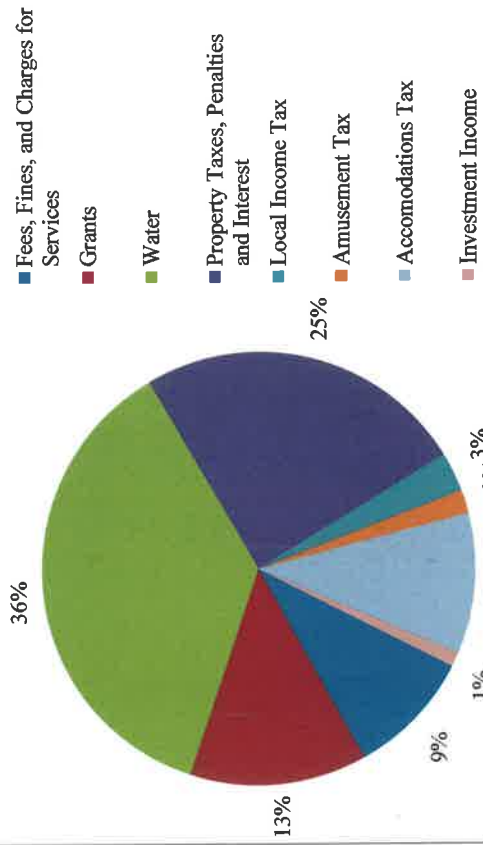
Although the Town struggles with lower property values and state shared revenues, the Commissioners have successfully reduced costs and lowered the property tax rate by \$.19 between FY2011 and FY2014, despite declining assessments, and the Commissioners were still able to maintain the rate of \$.45/\$100 of assessment for FY2015 and 2016.

FINANCIAL CONTACT

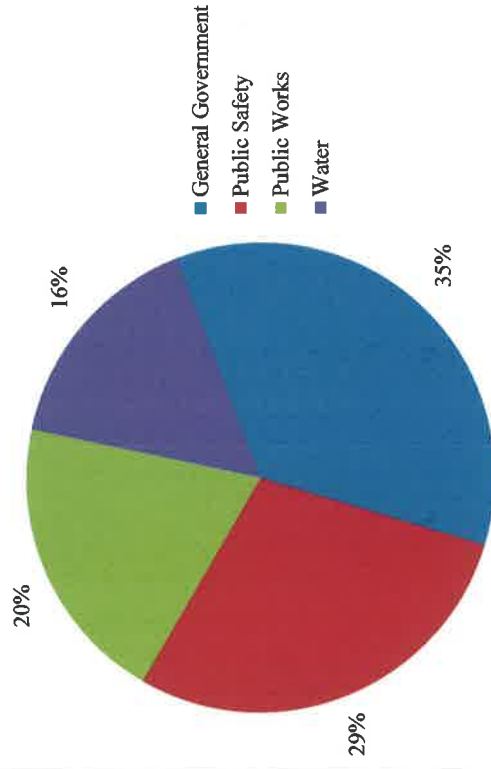
The Town's financial statements are designed to present users (citizens, taxpayers, customers, and creditors) with a general overview of the Town's finances and to demonstrate the Town's accountability. If you have questions about the report or need additional financial information, please contact the Town's management at P.O. Box 206, St. Michaels, Maryland 21663-0206.

COMMISSIONERS OF ST. MICHAELS
MANAGEMENT'S DISCUSSION AND ANALYSIS
TOTAL REVENUES AND EXPENSES
GOVERNMENT-WIDE
JUNE 30, 2016

Total Revenues



Total Expenses



COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
JUNE 30, 2016

EXHIBIT A

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 881,162	\$ -	\$ 881,162
Accounts Receivable	209,046	182,618	391,664
Investments	8,889,409	329,076	9,218,485
Accounts Receivable - Parking Spaces	53,367	-	53,367
Note Receivable - Choptank Electric Cooperative, Inc.	384,615	-	384,615
Capital Assets:			
Land	2,161,378	-	2,161,378
Buildings	1,286,733	-	1,286,733
Equipment	522,726	948,051	1,470,777
Improvements	8,640,551	4,604,470	13,245,021
Vehicles	360,646	78,206	438,852
Accumulated Depreciation	<u>(2,351,894)</u>	<u>(1,425,324)</u>	<u>(3,777,218)</u>
Total Assets	21,037,739	4,717,097	25,754,836
Deferred Outflow of Resources	<u>129,317</u>	<u>19,034</u>	<u>148,351</u>
Total Assets and Deferred Outflows	\$ <u>21,167,056</u>	\$ <u>4,736,131</u>	\$ <u>25,903,187</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 131,960	\$ 37,328	\$ 169,288
Non-Current Liabilities:			
Compensated Absences	151,332	13,032	164,364
Net Pension Liability	838,476	130,285	968,761
Due within one year	-	107,929	107,929
Due in more than one year	<u>-</u>	<u>1,360,057</u>	<u>1,360,057</u>
Total Liabilities	<u>1,121,768</u>	<u>1,648,631</u>	<u>2,770,399</u>
<u>NET POSITION</u>			
Net Investment in Capital Assets	10,620,140	2,737,417	13,357,557
Restricted	8,091,925	329,076	8,421,001
Unrestricted	<u>1,333,223</u>	<u>21,007</u>	<u>1,354,230</u>
Total Net Position	\$ <u><u>20,045,288</u></u>	\$ <u><u>3,087,500</u></u>	\$ <u><u>23,132,788</u></u>

COMMISSIONERS OF ST. MICHAELS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT B

Program Activities	Program Revenues			Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position	
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions		Governmental Activities	Business-Type Activities
Governmental Activities:						
General Government	\$ 1,369,739	\$ 445,831	\$ 2,778	\$ 555,931	\$ (365,199)	\$ (365,199)
Police	1,103,840	3,865	70,267	-	(1,029,708)	(1,029,708)
Public Works	771,014	-	-	4,000	(767,014)	(767,014)
Total Governmental Activities	3,244,593	449,696	73,045	559,931	(2,161,921)	(2,161,921)
Business-Type Activities:						
Water	607,384	625,260	-	1,123,103	-	1,140,979
Total Government	\$ 3,851,977	\$ 1,074,956	\$ 73,045	\$ 1,683,034	(2,161,921)	(1,020,942)

<u>General Revenues:</u>		
Property Taxes, Penalties, and Interest	1,184,476	-
Local Income Tax	139,233	-
Amusement Tax	84,180	-
Highway Use Tax	53,939	-
Accommodations Tax	502,858	-
Investment Income	50,693	499
Transfer In/(Out)	(204,688)	204,688
Total General Revenues	1,810,691	205,187
Change in Net Position	(351,230)	1,346,166
Net Position - Beginning	20,396,518	1,741,334
Net Position - Ending	\$ 20,045,288	\$ 3,087,500

COMMISSIONERS OF ST. MICHAELS
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016

EXHIBIT C

<u>ASSETS</u>	<u>General Fund</u>
Cash	\$ 881,162
Accounts Receivable	209,046
Investments	<u>8,889,409</u>
Total Assets	<u>\$ 9,979,617</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts Payable	\$ <u>131,960</u>
Fund Balance:	
Unassigned	2,141,179
Committed	<u>7,707,310</u>
Total Fund Balance	<u>9,847,657</u>
Total Liabilities and Fund Balance	<u>\$ 9,979,617</u>

Amounts Reported For Governmental Activities in The Statement of Net Position Are Different Because:

Total Fund Balance	\$ 9,847,657
Note Receivable - Choptank Electric is a long-term asset	384,615
Accounts Receivable - Parking Spaces are long-term assets	53,367
Capital assets and related accumulated depreciation used in governmental activities are not financial resources and therefore are not reported in the governmental fund's balance sheet.	10,620,140
The deferred outflow of resources is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	129,317
The net pension liability is not a current financial resource and therefore is not reported in the governmental fund's balance sheet	(838,476)
Compensated Absences are not due and payable in the current period and therefore are not reported in the funds	<u>(151,332)</u>
Net Position of Governmental Activities	<u>\$ 20,045,288</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT D

	<u>General Fund</u>
Revenues:	
Taxes	\$ 1,825,453
Revenue from Other Agencies	753,221
Licenses and Permits	46,375
Rental/Franchise Revenue	250,806
Fines	6,615
Service Charges	36,795
Investment Income	50,693
Sale of Property	80,001
Miscellaneous	<u>59,918</u>
Total Revenues	<u>3,109,877</u>
Expenditures:	
Current:	
General Government	1,216,943
Police	1,007,823
Public Works	554,561
Capital Outlay	<u>540,846</u>
Total Expenditures	<u>3,320,173</u>
Excess of Revenues over/(under) Expenditures	<u>(210,296)</u>
Other Financing Sources/(Uses):	
Operating Transfers	(204,688)
Principal Proceeds from Choptank Note	<u>369,822</u>
Total Other Financing Sources/(Uses)	<u>165,134</u>
Net Change in Fund Balance	(45,162)
Fund Balance - Beginning	<u>9,892,819</u>
Fund Balance - Ending	<u>\$ 9,847,657</u>

COMMISSIONERS OF ST. MICHAELS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT E

Net Change in Fund Balance - Total Governmental Fund	\$ (45,162)
Amounts reported for governmental activities in the statement of activities are different because:	
Pension plan adjustments related to GASB 68 affect the amount of pension expense reflected in the financial statements	(93,576)
Parking space proceeds were previously reported as revenue in government-wide statements	(33,826)
Parking spaces sold during the year	22,000
Governmental funds report capital outlay and construction in progress as expenditures. However, in the government-wide statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets in the current period.	540,846
Book value of assets sold does not require the use of current financial resources	(91,798)
Governmental funds report proceeds from the Choptank note receivable as income when received. However, the government-wide statement of activities reported the entire gain in 2007, the year of sale.	(369,822)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. This is the change in the compensated absences for the year.	2,293
Depreciation expense on capital assets is reported in the government-wide statement of activities, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental fund.	(282,185)
Change in Net Position of Governmental Activities	\$ <u>(351,230)</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT F

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Favorable</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>(Unfavorable)</u>
Revenues:				<u>Variance</u>
Taxes	\$ 1,753,467	\$ 1,787,367	\$ 1,825,453	\$ 38,086
Revenue from Other Agencies	156,904	232,904	753,221	520,317
Licenses and Permits	32,100	32,100	46,375	14,275
Rental/Franchise Revenue	250,051	250,051	250,806	755
Fines	1,000	1,000	6,615	5,615
Service Charges	3,700	3,700	36,795	33,095
Investment Income	76,605	76,605	50,693	(25,912)
Sale of Property	-	188,101	80,001	(108,100)
Miscellaneous	-	-	59,918	59,918
Total Revenues	<u>2,273,827</u>	<u>2,571,828</u>	<u>3,109,877</u>	<u>538,049</u>
Expenditures:				
Current:				
General Government	771,110	775,110	1,216,943	(441,833)
Police	932,751	962,751	1,007,823	(45,072)
Public Works	550,168	675,168	554,561	120,607
Capital Outlay	203,504	631,325	540,846	90,479
Total Expenditures	<u>2,457,533</u>	<u>3,044,354</u>	<u>3,320,173</u>	<u>(275,819)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(183,706)</u>	<u>(472,526)</u>	<u>(210,296)</u>	<u>262,230</u>
Other Financing Sources/(Uses):				
Operating Transfers	(204,688)	(204,688)	(204,688)	-
Principal Proceeds from Choptank Note	339,644	339,644	369,822	30,178
Prior Year Reserves	<u>(155,938)</u>	<u>132,882</u>	<u>-</u>	<u>(132,882)</u>
Total Other Financing Sources/(Uses)	<u>(20,982)</u>	<u>267,838</u>	<u>165,134</u>	<u>(102,704)</u>
Net Change in Fund Balance	<u>(204,688)</u>	<u>(204,688)</u>	<u>(45,162)</u>	<u>159,526</u>
Fund Balances - Beginning	<u>9,892,819</u>	<u>9,892,819</u>	<u>9,892,819</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 9,688,131</u>	<u>\$ 9,688,131</u>	<u>\$ 9,847,657</u>	<u>\$ 159,526</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF NET POSITION - ENTERPRISE FUND
JUNE 30, 2016

EXHIBIT G

<u>ASSETS</u>	<u>Water Fund</u>
Current Assets:	
Accounts Receivable	\$ 182,618
Investments	<u>329,076</u>
Total Current Assets	<u>511,694</u>
Capital Assets:	
Equipment	948,051
Improvements	4,604,470
Vehicles	78,206
Accumulated Depreciation	<u>(1,425,324)</u>
Total Capital Assets	<u>4,205,403</u>
Total Assets	4,717,097
Deferred Outflow of Resources	<u>19,034</u>
Total Assets and Deferred Outflows	<u>\$ 4,736,131</u>
 <u>LIABILITIES</u>	
Current Liabilities:	
Accounts Payable	\$ 37,328
Current Portion of Long-Term Debt	<u>107,929</u>
Total Current Liabilities	<u>145,257</u>
Non-Current Liabilities:	
Compensated Absences	13,032
Net Pension Liability	130,285
Long-Term Debt - Net of Current Portion	<u>1,360,057</u>
Total Non-Current Liabilities	<u>1,503,374</u>
Total Liabilities	<u>1,648,631</u>
 <u>NET POSITION</u>	
Invested in Capital Assets, Net of Related Debt	2,737,417
Restricted	329,076
Unrestricted - Restated	<u>21,007</u>
Total Net Position	<u>3,087,500</u>
Total Liabilities and Net Position	<u>\$ 4,736,131</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT H

	<u>Water</u> <u>Fund</u>
Operating Revenues:	
Charges for Services	\$ 612,619
Connection Charges	7,251
Capital Charges	2,200
Miscellaneous	<u>3,190</u>
Total Operating Revenues	<u>625,260</u>
Operating Expenses:	
Salaries	202,014
Overtime	5,208
Administrative Salary Charge	45,648
Insurance	5,088
Supplies	5,947
Computer/Telemetry Software	1,617
Postage	502
Electric	18,550
Testing	4,688
Travel and Training	2,581
Dues and Subscriptions	500
Telephone	2,107
Uniforms	7,565
Vehicle Expense	3,997
Materials and Supplies	35,132
Maintenance on Arsenic System	8,463
Reimbursables	2,254
Miscellaneous	438
Maintenance of Generator #2	1,814
Arsenic Media Replacement	109,969
Arsenic Removal Administrative Fee	3,917
Water Tower Interest	11,796
USDA Loan Interest	21,271
Arsenic Removal Interest	3,643
Depreciation	<u>102,675</u>
Total Operating Expenses	<u>607,384</u>
Operating Income (Loss)	17,876
Non-Operating Revenue:	
Investment Income	499
Grant Income	<u>1,123,103</u>
Total Non-Operating Revenues	1,123,602
Income/(Loss) Before Transfers	1,141,478
Transfers	<u>204,688</u>
Change in Net Position	1,346,166
Net Position - Beginning	<u>1,741,334</u>
Net Position - Ending	<u>\$ 3,087,500</u>

COMMISSIONERS OF ST. MICHAELS
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT I

	Water Fund
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 614,899
Connection Charges	7,251
Capital Charges	2,200
Miscellaneous Charges	3,190
Cash Payments for Interest	(36,710)
Cash Payments to Employees for Services	(240,266)
Cash Payments to Suppliers for Goods and Services	(232,548)
Net Cash Flows from Operating Activities	<u>118,016</u>
Cash Flows from Non-Capital Financing Activities:	
Cash from/(to) Maryland Local Government Investment Pool	(103,422)
Transfers - General Fund	204,688
Net Cash Flows from Non-Capital Financing Activities	<u>101,266</u>
Cash Flows from Capital and Related Financing Activities:	
Grant Proceeds	1,123,103
Loan Proceeds	51,000
Purchase of Capital Assets	(1,288,944)
Retirement of Debt	(104,441)
Net Cash Flows from Capital and Related Financing Activities	<u>(219,282)</u>
Net Increase in Cash	-
Cash - Beginning	<u>-</u>
Cash - Ending	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:	
Operating Income (Loss)	\$ 17,876
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows from Operating Activities:	
Depreciation	102,675
Change in Accounts Receivable	2,280
Change in Deferred Outflows	(15,219)
Change in Compensated Absences	(923)
Change in Net Pension Liability	28,746
Change in Accounts Payable	(17,419)
Net Cash Flows from Operating Activities	<u>\$ 118,016</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
PAGE 1

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

The Commissioners of St. Michaels (also known as the Town of St. Michaels), (the "Town"), is located on the Eastern Shore of Maryland and has a population of approximately 1,000 people. Some of the major services provided by the Town include water, parks and recreation, planning and zoning, improvements, and public safety.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled Audits of State and Local Governmental Units and by the Financial Accounting Standards Board (when applicable).

The more significant accounting policies of the Town are described below.

B. Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity is set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 61.

Based on this criteria, the Town has no component units.

C. Basis of Presentation

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

Government-wide Financial Statements:

The statement of net position and the statement of activities report information on all of the activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements would normally be presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Presentation (Continued)

- a. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, deferred outflows, liabilities, deferred inflows, revenues, or expenditures/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major funds:

General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Water Fund

The Water Fund is used to account for the provision of water services to the residents of the Town. Activities of the fund include administration, operations and maintenance of the water system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs for water debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The Town considers Governmental Revenue as available if it is collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred.

The revenues susceptible to accrual are licenses, charges for services, and intergovernmental revenues. All other Governmental Fund revenues are recognized when received.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
PAGE 3

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

E. Budgetary Control

The Town Manager submits an annual budget to the Commissioners in accordance with the Town Charter. In June, the Commissioners adopt the annual fiscal year appropriated budget for Town funds. These include General, Police, Public Works, Water, and Capital. Once approved, the Commissioners may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Commissioners. Within these control levels, management may transfer appropriations with Commissioners' approval.

The Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund is presented using the same basis of accounting for both budgetary purposes and actual results.

F. Cash and Investments

The Town follows the practice of segregating cash as to fund purpose or type.

The types of investments allowed are governed by Maryland Statute. The Town considers all cash or investments with an initial maturity of three months or less to be cash. All deposits with financial institutions must be insured or collateralized by the pledging financial institution trust department.

Investments include repurchase agreements under PNC Investments' Local Government Investment Pool. Fair value is the same as par value: \$1 a share.

G. Accounts Receivable

Management of the Town considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. If amounts become uncollectible, they will be charged to operations in the period the receivable is deemed uncollectible.

H. Property Taxes

Property taxes are billed each July 1 for the fiscal year. Full payment is due by December 31. January 1 is the delinquent date and the levy date is June 1. Liens are placed on properties on June 15.

I. Transactions Between Funds

Legally authorized transfers are treated as inter-fund transfers and are included in the results of operations of the funds.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable column in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Classification</u>	<u>Life</u>
Buildings	20 - 50 Years
Equipment	5 - 20 Years
Vehicles	5 - 10 Years
Streets	30 Years
Water Department Assets	3 - 40 Years

In accordance with Accounting Standards Codification (ASC), No. 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," management reviews property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment losses have been recognized during the year presented.

K. Net Position

Net Position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in capital assets, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

M. Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town currently has no non-spendable fund balance.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. The Town currently has no restricted fund balance.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Commissioners. These amounts cannot be used for any other purpose unless the Commissioners remove or change the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Commissioners or through the Commissioners delegating this responsibility to the Town Manager through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The Town currently has no assigned fund balance.
- Unassigned: This classification includes the residual fund balance for the General Fund and the amount established for Minimum Funding, if any. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

N. Compensated Absences

Employees are granted vacation and compensatory time in varying amounts. Vacation leave is only accrued as earned on the basis of services already performed by the employee and that it is probable to be paid in a future period. An employee is allowed to carry a maximum of sixty days of vacation time from one year to the next. Any amounts over 60 days will be forfeited, unless written permission is given by the Town Manager. Compensatory time is limited to 480 hours for police and 240 hours for office staff. An employee that exceeds this amount during a given year will be required to take overtime pay for all hours exceeding the limits.

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
PAGE 6

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

O. Subsequent Events

Events and transactions subsequent to year end have been evaluated for potential recognition in the financial statements or disclosure in the notes to the financial statements. All events and transactions have been evaluated through October 3, 2016, the date the report was available for issuance.

NOTE 2 - CASH AND INVESTMENTS:

The following is a detail of cash and investments:

<u>Cash on Hand</u>		\$	75
<u>PNC Bank (Balances per bank):</u>			
General Fund Checking	\$ 660,316		
General Fund Payroll	32,415		
Parking Lot	168,857		
Muskrat Park	7,874		
Murray Shoreline	1,312		
Classic Motor Museum	12,505		
SMPD-SMYLE	15,159		
Health Reimbursement	6,145		
<u>Total PNC Bank</u>			904,658
<u>Maryland Local Government Investment Pool (MLGIP)</u>			9,218,485
<u>TOTAL CASH AND INVESTMENTS</u>		\$	<u>10,123,143</u>

The balance of cash is categorized as follows:

Amount insured by the FDIC, or collateralized with securities	\$ 904,658
Uninsured and Uncollateralized	<u>-</u>
<u>TOTAL CASH</u>	<u>\$ 904,658</u>

Investments owned by the various funds of the Town are as follows:

<u>Description</u>	<u>Interest Rates</u>	<u>Par Value</u>	<u>Cost</u>	<u>Market Value</u>	<u>Recognized Gain (Loss)</u>
<u>GENERAL FUND</u>					
<u>MLGIP</u>					
Unrestricted	Various	\$ 1,182,099	\$ 1,182,099	\$ 1,182,099	\$ -
Committed/Restricted	Various	7,707,310	7,707,310	7,707,310	-
<u>ENTERPRISE FUND</u>					
<u>MLGIP</u>					
Restricted	Various	329,076	329,076	329,076	-
<u>TOTAL ALL FUNDS</u>		<u>\$ 9,218,485</u>	<u>\$ 9,218,485</u>	<u>\$ 9,218,485</u>	<u>\$ -</u>

The Maryland Local Government Investment Pool (MLGIP) provides all local government units of the State an investment vehicle for the short term investment of funds. The State Legislature created the Maryland Local Government Investment Pool with the passage of Article 95 22G, of the Annotated Code of Maryland. The

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 2 - CASH AND INVESTMENTS (CONTINUED):

Pool's purpose is to assist the public finance officer by providing an investment medium in which the participants may invest their idle balances. A pooled fund strategy is utilized creating a money market fund that provides professional money management, a well diversified portfolio and reduced cost. The MLGIP is rated "AAAm" by Standard and Poor's (their highest rating). The MLGIP, under the administrative control of the State Treasurer, is managed by PNC Institutional Investments. A MLGIP Advisory Committee of current participants reviews, on a semi-annual basis, the activities of the Fund.

Investments - The Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established by Section 6-222 of the State Finance and Procurement Article. This includes: an obligation for which the United States has pledged its faith and credit for the payment of principal and interest; an obligation that a federal agency or federal instrumentality has issued; a repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities; bankers acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter rating by at least one nationally recognized statistical rating organization (NRSRO) as designated by either the United States Securities and Exchange Commission (SEC) or the State Treasurer; Commercial Paper that has received the highest letter rating by at least one NRSRO as designated by the SEC; and money market mutual funds that are registered with the SEC under the Investment Company Act of 1940, as amended, and are operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended. No direct investment may have a maturity date of more than 13 months after its acquisition. However, floating rate notes are permitted with a minimum semi-annual reset and two year final maturity.

Repurchase Agreements - The Pool may agree to purchase portfolio securities from financial institutions, such as banks and broker-dealers, subject to the seller's agreement to repurchase them at an agreed upon date and price. The seller will be required on a daily basis, to maintain collateral in the form of an obligation of the United States, its agencies or instrumentalities on behalf of the Pool equal to 102% of market value of securities subject to resale. The agreement is conditioned upon the collateral being deposited under the Federal Reserve book-entry system. Such agreements, which are fully collateralized at year-end, are stated separately in the Pool's schedule of investments. In the event of a bankruptcy or default of certain sellers or repurchase agreements, the Pool could experience costs and delays in liquidating the underlying security, which is held as collateral, and the Pool might incur a loss if the value of the collateral held declines during this period.

NOTE 3 - RECEIVABLES:

The following is a list, by the type of charge, of outstanding receivables:

Tower Rents	\$ 11,473
Water Charges	182,618
Public Accommodations Tax	151,552
Parking Spaces	53,367
Highway User Taxes	3,364
Admissions and Amusements	10,816
Taxes	2,153
Housing Authority P.I.L.O.T.	13,437
Other Miscellaneous Receivables	<u>16,251</u>
<u>TOTAL</u>	<u>\$ 445,031</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 4 - NOTE RECEIVABLE - CHOPTANK ELECTRIC COOPERATIVE:

In 2008 the Town sold its electric distribution system to Choptank Electric Cooperative, Inc. for \$11,444,358. Choptank Electric Cooperative paid \$8,200,000 in cash and is paying the remaining \$3,244,358 over a 10 year period in annual installments of \$400,000, including imputed interest at 4%.

NOTE 5 - CAPITAL ASSETS:

The following is a summary of Capital Asset changes for the current year:

	<u>ASSETS</u>			
	Balance Beginning of Year	Acquisitions	Retirements	Balance End of Year
Land and Improvements	\$ 2,090,535	\$ 162,641	\$ (91,798)	\$ 2,161,378
Buildings	1,286,733	-	-	1,286,733
Equipment	487,092	35,634	-	522,726
Improvements	8,297,980	342,571	-	8,640,551
Vehicles	476,817	-	(116,171)	360,646
Water Assets	4,341,783	1,288,944	-	5,630,727
<u>TOTALS</u>	<u>\$ 16,980,940</u>	<u>\$ 1,829,790</u>	<u>\$ (207,969)</u>	<u>\$ 18,602,761</u>

	<u>ACCUMULATED DEPRECIATION</u>			
	Balance Beginning of Year	Depreciation	Retirements	Balance End of Year
Land and Improvements	\$ 63,851	\$ 3,040	\$ -	\$ 66,891
Buildings	390,227	32,217	-	422,444
Equipment	369,247	24,187	-	393,434
Improvements	1,090,226	191,021	-	1,281,247
Vehicles	272,329	31,720	(116,171)	187,878
Water Assets	1,322,649	102,675	-	1,425,324
<u>TOTALS</u>	<u>\$ 3,508,529</u>	<u>\$ 384,860</u>	<u>\$ (116,171)</u>	<u>\$ 3,777,218</u>
<u>NET CAPITAL ASSETS</u>				<u>\$ 14,825,543</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
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NOTE 5 - CAPITAL ASSETS (CONTINUED):

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 27,475
Police	50,860
Public Works	203,850
Water Fund	102,675
Total Depreciation Expense	<u>\$ 384,860</u>

NOTE 6 - DEBT:

Debt consists of the following:

Bonds payable to Rural Development in the amount of \$1,287,000. Paid in semi-annual installments of \$37,525, including interest of 5% through September 2022 (Water system upgrade).	\$ 384,923
Bonds payable to Maryland Community Development Administration (CDA) in the amount of \$342,484. Paid in semi-annual installments of \$11,874, including interest of 5.625% through May 2027 (Water tower construction).	191,410
Note payable to Maryland Department of Environment (MDE). Payable in semi-annual installments of interest and annual principal payments. Total payment of \$43,907 including interest of .4% and an administrative fee of 5% of debt service payments. Total loan amount was \$1,179,000. Due date February 1, 2037 (Arsenic Removal).	840,653
Note payable to Maryland Department of Environment (MDE). Payable in semi-annual installments of interest and annual principal payments. Total payments of \$36,593 including interest of .7% and an administrative fee of 5% of debt service payments. Total loan amount will be \$680,727 in fiscal year 2017. Due date February 1, 2036 (Arsenic Removal II)	<u>51,000</u>
<u>TOTAL DEBT</u>	1,467,986
Less: Current Portion	<u>(107,929)</u>
<u>TOTAL LONG-TERM DEBT</u>	<u>\$ 1,360,057</u>

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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NOTE 6 - DEBT (CONTINUED):

Maturities of Principal and interest over the next five years and five year increments thereafter, are as follows:

	Governmental-Type Activities		Business-Type Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ -	\$ 107,929	\$ 32,686
2018	-	-	111,693	28,922
2019	-	-	115,648	24,967
2020	-	-	119,802	20,813
2021	-	-	124,162	16,453
2022 - 2026	-	-	366,523	36,350
2027 - 2031	-	-	223,809	9,020
2032 - 2036	-	-	256,772	3,308
2037 - 2041	-	-	41,648	168
<u>TOTALS</u>	\$ -	\$ -	\$ 1,467,986	\$ 172,687

Below summarizes the changes in Debt:

	BALANCE <u>JULY 1</u>	<u>Additions</u>	<u>Retirements</u>	BALANCE <u>JUNE 30</u>
USDA	\$ 438,702	\$ -	\$ (53,779)	\$ 384,923
Maryland CDA	203,772	-	(12,362)	191,410
MDE - Arsenic Removal	878,953	-	(38,300)	840,653
MDE - Arsenic Removal II	-	51,000	-	51,000
<u>TOTALS</u>	\$ 1,521,427	\$ 51,000	\$ (104,441)	\$ 1,467,986

NOTE 7 - RESTRICTIONS ON NET POSITION:

Restricted net position is available for the following purposes:

	<u>General</u>	<u>Enterprise</u>
Capital Projects	\$ 8,091,925	\$ -
Water Improvements	-	329,076
<u>TOTALS</u>	\$ 8,091,925	\$ 329,076

NOTE 8 - PENSION PLAN:

The Town contributes to the Maryland State Retirement and Pension System (MSRPS) which is a cost sharing multiple employer defined benefit plan. All compensation earned by a member of the Plan is subject to employer pension contributions at an actuarially determined rate. The rate is established by the Board of Pension Trustees on the basis of the most recent actuarial valuation and is adjusted on July 1st of each year. Employer contributions for June 30, 2016, were at a rate of 6.20% of earnings. A deduction is made from each employee's compensation equal to 7% of base pay. Full service pension allowance equals 1.2% of Average Final Compensation (AFC) for the three highest consecutive years as an employee for each year of creditable service accrued prior to July 1, 1998, plus 1.8% of the AFC for the three highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 1998. Members are eligible for full service pension allowances upon accumulating 30 years of eligibility service regardless of age. Absent 30 years of eligibility service, members must meet one of the following conditions to be eligible for full service pension allowances; age 62 with 5 years of eligibility service, age 63 with 4 years of eligibility

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
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NOTE 8 - PENSION PLAN (CONTINUED):

service, age 64 with 3 years of eligibility service, or age 65 or older and 2 years of eligibility service. Members may be eligible for reduced vested pension allowances upon attaining age 55 with 15 years of eligibility.

The plan provides for disability and survivor benefits.

During the year ended June 30, 2016, the Town contributed \$86,845 to the plan. There are 3 inactive employees who are either receiving benefits or who are entitled to benefit payments and 20 active employees covered.

Basis of Accounting - The System's financial statements are prepared on the accrual basis of accounting, and are in conformity with principles generally accepted in the United States of America. Accordingly, investment purchases and sales are recorded as of their respective trade dates. Employer and Member contributions are recognized in the period when due, pursuant to statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments - Investments are reported at fair value.

<u>Actuarial Assumptions</u> -	Investment rate of return/discount	7.55%
	Projected salary increases	3.2% - 8.95% including inflation
	Cost of living adjustments	3%
	Inflation rate included	2.7% general, 3.2% wage

Mortality rates are based on the RP-2014 Mortality.

The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2015.

Discount Rate - A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board after considering input from the System's investment consultant(s) and actuary(ies). For each major asset class that is included in the System's target asset allocation as of June 30, 2015, these best estimates are summarized in the following table:

Asset Class	Rate
Public Equity	6.3%
Fixed Income	0.6%
Credit Opportunity	3.2%
Real Return	1.8%
Absolute Return	4.2%
Private Equity	7.2%
Real Estate	4.4%
Cash and Equivalents	0.0%

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
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NOTE 8 - PENSION PLAN (CONTINUED):

The following presents the collective net pension liability (asset) of the plans calculated using the discount rate of 7.55%, as well as what the plan's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

1% Decrease	\$	1,369,194
Current Discount Rate	\$	968,761
1% Increase	\$	636,721

The Town's share of the net pension liability (asset) was calculated based on a percentage, the numerator of which is the Town's contribution for June 30, 2015, and the denominator is the total employer contributions for all participating employers. The total plan pension liability (asset) was multiplied by this percentage to arrive at the Town's share. The percentage for June 30, 2015, was .0046616%. The collective total pension liability (asset) for the June 30, 2015 measurement date was determined by an actuarial valuation as of June 30, 2015 using the entry age normal actuarial cost method.

Deferred Inflows and Outflows of Resources - The Town's share of the deferred inflows and outflows of resources are as follows:

Deferred financing inflows and outflows are made up of changes in actuarial assumptions, differences in actual and expected experience and net difference in the projected and actual investment earnings. The deferred inflows and outflows related to non-investment activity are being amortized over the remaining service life of 5.87 years. The 2014 deferred outflows not related to investment activity are being amortized over the remaining service life of 5 years. The net difference in investment earnings for both 2015 and 2014 is being amortized over a closed five year period. The following table shows the future amortization of these balances:

2015 Balance Amortization					2014 Balance Amortization		
Deferred Outflows					Deferred Inflows	Deferred Outflows	Deferred Inflows
Net Difference in					Actual and	Net Difference in	
Year	Investment Earnings		Change in Assumptions		Expected Experience	Change in Assumptions	Investment Earnings
2017	\$	21,332	\$	9,941	\$ (4,067)	\$ 2,680	\$ (20,281)
2018		21,332		9,941	(4,067)	2,680	(20,281)
2019		21,332		9,941	(4,067)	2,681	(20,282)
2020		21,332		9,941	(4,067)	-	-
2021		-		9,056	(3,571)	-	-
TOTALS	\$	85,328	\$	48,820	\$ (19,839)	\$ 8,041	\$ (60,844)

COMMISSIONERS OF ST. MICHAELS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

EXHIBIT J
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NOTE 8 - PENSION PLAN (CONTINUED):

The plan is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland. The Commissioners of St. Michaels assign the authority to establish and amend the benefit provisions of the plans that participate in the MSRPS to the Board of Trustees of the SRPSM. The State of Maryland issues a publicly available financial report that includes financial statements and required supplemental information for the MSRPS. The report may be obtained by writing to the Maryland State Retirement Agency, 120 East Baltimore Street, Baltimore, MD 21202, or via the internet at www.sra.state.md.us.

NOTE 9 - RISK AND INSURANCE COVERAGE:

The Town has exposure to various kinds of risk. As a vehicle to reduce this exposure the Town has purchased insurance policies from commercial insurance agents and entered into agreements with The Maryland Local Government Insurance Trust and Chesapeake Employers' Insurance.

The insurance policies from commercial agents cover bonding for employees and The Commissioners.

The Maryland Local Government Insurance Trust covers general liability, public officials' legal liability for errors and omissions, police legal liability for wrongful acts and automobile liability and damage claims. Chesapeake Employers' Insurance covers workman's compensation claims.

The Maryland Local Government Insurance Trust and Chesapeake Employers' Insurance are risk pools to which the Town pays a premium for selected types and amounts of insurance coverage. These two pools provide policies with retrospectively rated premiums. Premiums are accrued (paid) based on the ultimate cost of the experience to date of a group of entities.

COMMISSIONERS OF ST. MICHAELS

SUPPLEMENTAL INFORMATION

JUNE 30, 2016

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE A
PAGE 1

	2016				
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/15
	Original	Final			
<u>TAXES-LOCAL:</u>					
<u>Real and Personal Property:</u>					
Real Estate Taxes	\$ 1,128,769	\$ 1,140,169	\$ 1,142,322	\$ 2,153	\$ 1,129,519
Personal Property and Corporation	1,123	1,123	1,123	-	1,123
Utilities	47,124	47,124	47,915	791	47,124
Total Real and Personal Property	1,177,016	1,188,416	1,191,360	2,944	1,177,766
<u>Admissions and Amusements</u>	60,000	60,000	84,180	24,180	64,506
<u>Public Accommodations</u>	470,000	485,000	502,858	17,858	478,018
<u>Taxes - State Shared:</u>					
Highway User	54,451	54,451	53,939	(512)	48,363
Total Taxes	1,761,467	1,787,867	1,832,337	44,470	1,768,653
Less: Discounts and Allowances	(8,000)	(500)	(6,884)	(6,384)	(12,739)
NET TAXES	1,753,467	1,787,367	1,825,453	38,086	1,755,914
<u>REVENUE FROM OTHER AGENCIES:</u>					
<u>Federal Government:</u>					
Department of The Interior	2,040	2,040	2,778	738	2,469
DHCD and SMHA-Federal Block Grant	-	-	6,315	6,315	65,774
DHCD and SMCC	-	-	473,616	473,616	-
DHCD Arsenic Grant	-	-	180,955	180,955	-
<u>State Government:</u>					
Police Protection State	35,839	35,839	35,697	(142)	33,905
Critical Area Grant	4,000	4,000	4,000	-	4,000
Harbor Road Boat Ramp	-	-	-	-	19,426
Income Tax	90,000	90,000	139,233	49,233	89,615
State Fire, Rescue, and Ambulance Fund	2,000	2,000	3,082	1,082	2,139
LGIT - Lexipol Grant	2,900	2,900	-	(2,900)	-
MDE Grant	-	-	942,148	942,148	-
<u>County Government:</u>					
Crossing Guard	12,500	12,500	12,500	-	12,500
<u>Other Agencies:</u>					
Eastern Shore Land Conservancy Grant	-	76,000	76,000	-	-
St. Michaels Housing Authority PILOT	7,625	7,625	-	(7,625)	-
TOTAL REVENUE FROM OTHER AGENCIES	156,904	232,904	1,876,324	1,643,420	229,828
<u>LICENSES AND PERMITS:</u>					
Traders Licenses	8,000	8,000	9,733	1,733	8,464
Animal Licenses	100	100	-	(100)	270
Building Permits	20,000	20,000	20,809	809	21,746
HDC Permits	2,000	2,000	2,650	650	1,950
Board of Appeals	1,000	1,000	633	(367)	300
Land Use Management Fees	-	-	11,550	11,550	5,300
Other Licenses and Permits	1,000	1,000	1,000	-	865
TOTAL LICENSES AND PERMITS	32,100	32,100	46,375	14,275	38,895

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF REVENUE - BUDGET AND ACTUAL - ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE A
PAGE 2

	2016				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/15
	Original	Final	Actual Amounts		
<u>RENTAL/FRANCHISE REVENUE:</u>					
Cable TV	\$ 12,800	\$ 12,800	\$ 13,604	\$ 804	\$ 14,034
Boat Slip Rentals	24,000	24,000	25,055	1,055	23,802
Building Rent	40,553	40,553	40,662	109	40,662
Tower Rent	172,698	172,698	171,485	(1,213)	164,355
<u>TOTAL RENTAL/FRANCHISE REVENUE</u>	<u>250,051</u>	<u>250,051</u>	<u>250,806</u>	<u>755</u>	<u>242,853</u>
<u>WATER CHARGES:</u>					
Water Service Charges	630,000	630,000	612,619	(17,381)	652,294
Water Connections	4,000	4,000	7,251	3,251	8,289
Water Capital Charges	5,000	5,000	2,200	(2,800)	2,200
Miscellaneous Water Revenue	-	-	3,190	3,190	1,668
<u>TOTAL WATER CHARGES</u>	<u>639,000</u>	<u>639,000</u>	<u>625,260</u>	<u>(13,740)</u>	<u>664,451</u>
<u>FINES:</u>					
Parking and Civil Violations	1,000	1,000	3,865	2,865	1,390
Planning and Zoning Fines and Violations	-	-	2,750	2,750	-
<u>TOTAL FINES</u>	<u>1,000</u>	<u>1,000</u>	<u>6,615</u>	<u>5,615</u>	<u>1,390</u>
<u>SERVICE CHARGES:</u>					
Copy Machine	100	100	27	(73)	161
Parking Spaces	-	-	33,826	33,826	38,600
Tree Mitigation Funds	100	100	-	(100)	-
Health Officer Charges	3,000	3,000	2,088	(912)	5,190
Kayak Rack Rentals	-	-	840	840	840
Other Service Charges	500	500	14	(486)	-
<u>TOTAL SERVICE CHARGES</u>	<u>3,700</u>	<u>3,700</u>	<u>36,795</u>	<u>33,095</u>	<u>44,791</u>
<u>MISCELLANEOUS REVENUE:</u>					
Interest	46,472	46,472	51,192	4,720	49,782
Other Miscellaneous Revenue	-	-	12,661	12,661	16,864
Proceeds from Sale of St. Michael's Utility Commission	369,822	369,822	369,822	-	355,599
Reimbursed Expenses	-	-	28,269	28,269	3,538
SMPD/SMYLE Donations	-	-	18,988	18,988	28,453
Sale of Property	-	188,101	80,001	(108,100)	-
<u>TOTAL MISCELLANEOUS REVENUE</u>	<u>416,294</u>	<u>604,395</u>	<u>560,933</u>	<u>(43,462)</u>	<u>454,236</u>
<u>TOTAL REVENUE</u>	<u>\$ 3,252,516</u>	<u>\$ 3,550,517</u>	<u>\$ 5,228,561</u>	<u>\$ 1,678,044</u>	<u>\$ 3,432,358</u>

COMMISSIONERS OF ST. MICHAELS
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE 13
PAGE 1

	2016					
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/15	
	Original	Final	Actual Amounts			
GOVERNMENTAL FUNDS						
GENERAL GOVERNMENT:						
Legislative:						
Commissioner's Salaries and Benefits	\$ 10,000	\$ 10,000	\$ 13,771	\$ (3,771)	\$ 8,047	
Other Operating Expenses	14,400	14,400	15,175	(775)	14,856	
Executive:						
Salaries and Benefits	192,592	192,592	188,564	4,028	211,514	
Overtime	2,000	2,000	1,797	203	2,485	
Legal	40,000	40,000	9,210	30,790	20,645	
Audit	13,000	13,000	13,000	-	12,270	
Engineering	5,000	5,000	17,654	(12,654)	3,676	
Liability and Property Insurance	9,600	9,600	10,582	(982)	10,227	
Website Development	2,500	2,500	1,415	1,085	6,089	
Volunteer Acknowledgement	300	300	-	300	-	
Election	1,500	1,500	962	538	-	
Miscellaneous	1,500	1,500	3,278	(1,778)	1,751	
Telephone	7,500	7,500	6,123	1,377	6,324	
Dues and Subscriptions	4,100	4,100	4,659	(559)	4,158	
Notices and Ads	6,000	6,000	3,103	2,897	3,063	
Travel and Training	2,300	2,300	1,675	625	3,532	
Janitorial	3,100	3,100	3,155	(55)	3,030	
Codification - Maintenance	10,000	10,000	3,806	6,194	6,068	
Office Expense	25,000	25,000	26,117	(1,117)	25,925	
Document Retention	3,000	3,000	2,295	705	2,295	
Wayfinding Signage	10,000	10,000	-	10,000	-	
Tourism	118,000	118,000	113,573	4,427	128,262	
Capital Outlay - Audio Visual and Phone System	-	-	-	-	11,150	
Capital Outlay - 124 Fremont Street	-	159,000	162,641	(3,641)	-	
Total Legislative and Executive	481,392	640,392	602,555	37,837	485,367	
Planning and Zoning:						
Salaries and Benefits	141,710	141,710	140,660	1,050	118,775	
Overtime	2,000	2,000	521	1,479	5,129	
Administrative Salary Charge	45,648	45,648	45,648	-	32,635	
Legal	15,000	15,000	1,743	13,257	14,639	
Consulting	2,000	2,000	-	2,000	-	
Office Expenses	3,000	3,000	3,537	(537)	3,293	
Inspections	6,500	6,500	6,583	(83)	4,535	
Advertising	2,500	2,500	4,523	(2,023)	3,230	
Reimbursables	-	-	18,523	(18,523)	311	
Total Planning and Zoning	218,358	218,358	221,738	(3,380)	182,547	
Donations to Outside Agencies:						
Block Grant	-	-	6,315	(6,315)	65,774	
DIICD and SMCC	-	-	473,616	(473,616)	-	
Fire Department	52,860	52,860	52,860	-	51,998	
Talbot County Arts Council	1,000	1,000	1,000	-	1,000	
St. Mary's Square Museum	3,000	3,000	3,000	-	3,000	
Talbot County Library	7,500	7,500	7,500	-	7,500	
St. Michaels Community Center	3,000	3,000	3,000	-	3,000	
SMASH	-	4,000	4,000	-	4,000	
Bay Hundred Pool	4,000	4,000	4,000	-	4,000	
Total Donations to Outside Agencies	71,360	75,360	555,291	(479,931)	140,272	
TOTAL GENERAL GOVERNMENT	771,110	934,110	1,379,584	(445,474)	808,186	
POLICE:						
SMYLI: Expenses	1,000	1,000	27,549	(26,549)	18,259	
Sworn Salaries and Benefits	706,341	706,341	750,293	(43,952)	712,036	
Sworn Overtime	15,000	45,000	49,447	(4,447)	45,723	
Other Salaries	75,362	75,362	39,773	35,589	39,191	
Other Overtime	1,500	1,500	3,118	(1,618)	3,646	
Administrative Salary Charges	45,648	45,648	45,648	-	32,635	
Audit	1,600	1,600	1,250	350	1,600	
Legal	1,000	1,000	418	582	760	
Liability and Property Insurance	8,500	8,500	9,900	(1,400)	9,566	
Utilities	6,100	6,100	6,958	(858)	7,603	
Personnel Testing	500	500	-	500	401	

COMMISSIONERS OF ST. MICHAEL'S
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES/EXPENSES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE 11
PAGE 2

	2016				
	Budgeted Amounts			Favorable (Unfavorable) Variance	Prior Year 6/30/15
	Original	Final	Actual Amounts		
POLICE (CONTINUED)					
Uniforms	\$ 4,000	\$ 4,000	\$ 5,175	\$ (1,175)	\$ 3,945
Communications (Radio)	1,000	1,000	660	340	1,357
Equipment and Supplies	8,000	8,000	9,756	(1,756)	3,340
Vehicle Expense	16,000	16,000	19,210	(3,210)	20,691
Advertising (Personnel)	800	800	=	800	589
Miscellaneous	1,000	1,000	1,056	(56)	1,135
Telephone	7,100	7,100	8,377	(1,277)	7,502
Dues and Subscriptions	500	500	563	(63)	3,669
Travel and Training	2,800	2,800	3,142	(342)	2,723
Janitorial	5,000	5,000	5,300	(300)	5,200
Office Expenses	10,000	10,000	7,470	2,530	6,816
Capital Outlay - Gas Pump	14,000	14,000	12,760	1,240	=
Capital Outlay - Tasers	11,500	11,500	12,879	(1,379)	=
Capital Outlay - Drug Tracking K-9	10,500	10,500	9,995	505	50,766
TOTAL POLICE	954,751	984,751	1,030,697	(45,946)	979,153
PUBLIC WORKS:					
Maintenance and Grounds:					
Salaries and Benefits	211,990	211,990	189,981	22,009	202,771
Overtime	10,000	10,000	5,206	4,794	4,372
Administrative Salary Charge	45,648	45,648	45,648	=	33,649
Audit	2,030	2,030	1,250	780	2,030
Liability and Property Insurance	5,000	5,000	5,588	(588)	5,654
Tree Planting and Maintenance	10,000	10,000	12,139	(2,139)	13,151
Maintenance and Supplies:					
Health Officer	5,000	5,000	3,502	1,498	4,272
Mosquito Control	500	500	225	275	3,344
Personnel Testing	2,600	2,600	2,480	120	2,403
Uniforms	300	300	=	300	=
Miscellaneous	6,000	6,000	8,568	(2,568)	6,309
Telephone	400	400	496	(96)	364
	1,700	1,700	1,498	202	1,206
Total Maintenance and Grounds	301,168	301,168	276,581	24,587	279,525
Sanitation and Waste Removal:					
Landfill Fees	33,000	33,000	41,919	(8,919)	34,574
Repairs and Maintenance	3,000	3,000	1,992	1,008	1,071
Vehicle Expense	9,000	9,000	5,736	3,264	6,084
Recycling Service	54,000	54,000	60,857	(6,857)	63,638
Landfill Cleanup	=	=	13,129	(13,129)	16,008
Total Sanitation and Waste Removal	99,000	99,000	123,633	(24,633)	121,375
Streets:					
Signs	5,000	5,000	1,042	3,958	8,475
Sidewalk Repair	2,500	2,500	3,174	(674)	1,560
Alley Maintenance	5,000	5,000	=	5,000	=
Maintenance and Supplies:					
Storm Drain Repair and Maintenance	11,000	11,000	8,966	2,034	15,746
Snow and Ice Removal	300	300	1,052	(752)	466
Parking Lots Repair and Maintenance	1,000	1,000	826	174	1,004
Vehicle Expense	500	500	802	(302)	1,174
Electric - Street Lights	9,000	9,000	15,100	(6,100)	11,986
Capital Outlay - Phase V	45,000	45,000	49,277	(4,277)	45,466
Capital Outlay - Grace Street Engineering	=	268,821	295,669	(26,848)	1,273,424
Capital Outlay - Grace Street Culvert	20,000	20,000	8,388	11,612	=
Capital Outlay - Thompson Alley Engineering	90,000	90,000	2,836	87,164	=
Capital Outlay - Alley Reconstruction	10,000	10,000	8,388	1,612	=
Capital Outlay - Perry Cabin Drive	12,600	12,600	=	12,600	=
Capital Outlay - Truck	26,404	26,404	20,560	5,844	=
Capital Outlay - Parking Lots	=	=	=	=	24,398
	=	=	=	=	33,408
Total Streets	238,304	507,125	416,080	91,045	1,417,307
Municipal Buildings:					
Utilities	17,000	17,000	15,878	1,122	11,560
Maintenance and Supplies	11,000	11,000	6,553	4,447	5,438
Real Estate Taxes	9,000	9,000	11,146	(2,146)	9,485
Capital Outlay - Boy Scout Cabin	8,500	8,500	6,730	1,770	=
Total Municipal Buildings	45,500	45,500	40,307	5,193	26,483

COMMISSIONERS OF ST. MICHAEL'S
SUPPLEMENTAL INFORMATION
ANALYSIS OF EXPENDITURES - BUDGET AND ACTUAL
ALL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

SCHEDULE B
PAGE 1

2016					
	Budgeted Amounts		Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/15
	Original	Final			
<u>Parks and Recreation:</u>					
Harbor Maintenance	\$ 2,200	\$ 2,200	\$ 245	\$ 1,955	\$ 4,374
Maintenance and Supplies	21,000	21,000	23,909	(2,909)	27,508
Vehicle Maintenance	4,000	4,000	2,019	1,981	3,428
Uniforms	3,000	3,000	4,490	(1,490)	2,835
Nature Trail Maintenance	1,500	1,500		1,500	348
Park Enhancement Fund	4,000	4,000	3,711	289	2,558
Horticulturalist Contract	12,000	12,000	11,986	14	7,667
Capital Outlay - Parks	-	-	-	-	60,188
Capital Outlay - Utility Underground Study	-	125,000	6,931	118,069	-
Capital Outlay - W Harbor Bulkhead	-	-	-	-	19,964
<u>Total Parks and Recreation</u>	<u>47,700</u>	<u>172,700</u>	<u>53,291</u>	<u>119,409</u>	<u>128,870</u>
<u>TOTAL PUBLIC WORKS</u>	<u>731,672</u>	<u>1,125,493</u>	<u>909,892</u>	<u>215,601</u>	<u>1,973,560</u>
<u>TOTAL GOVERNMENTAL EXPENDITURES</u>	<u>2,457,533</u>	<u>3,044,754</u>	<u>3,320,173</u>	<u>(275,819)</u>	<u>3,760,899</u>
<u>ENTERPRISE FUND</u>					
<u>WATER FUND:</u>					
Salaries and Benefits	211,990	211,990	202,014	9,976	205,831
Overtime	8,217	8,217	5,208	3,009	4,372
Administrative Salary Charge	45,648	45,648	45,648	-	34,583
Consulting, Audit and Legal	1,600	1,600	-	1,600	1,600
Liability and Property Insurance	4,600	4,600	5,088	(488)	5,154
Office Expenses	1,000	1,000	5,947	(4,947)	660
Computer and Telemetry Software	9,000	9,000	1,617	7,383	13,850
Postage	1,500	1,500	502	998	1,177
Electric - Wells and Towers	23,500	23,500	18,550	4,950	18,038
Testing	7,500	7,500	4,688	2,812	4,032
Travel and Training	2,000	2,000	2,581	(581)	1,044
Dues and Subscriptions	500	500	500	-	400
Telephone	2,000	2,000	2,107	(107)	1,773
Uniforms	6,000	6,000	7,565	(1,565)	6,278
Vehicle Expense	2,000	2,000	3,997	(1,997)	1,984
Materials and Supplies	27,000	27,000	35,132	(8,132)	31,788
Maintenance on Arsenic System	50,000	50,000	8,463	41,537	5,497
Service Time - Mission Units	2,500	2,500	2,254	246	-
Miscellaneous	500	500	438	62	845
Maintenance of Generator #2	2,500	2,500	1,814	686	3,038
Arsenic Media Replacement	103,421	103,421	109,969	(6,548)	27,105
Debt Service - New Water Tower	63,136	63,136	11,796	51,340	12,448
Debt Service - Water Bonds (BIA)	19,029	19,029	21,271	(2,242)	23,863
Debt Service - Arsenic DOE	43,904	43,904	7,560	36,344	7,514
Depreciation	-	-	102,675	(102,675)	105,570
<u>TOTAL WATER FUND</u>	<u>639,045</u>	<u>639,045</u>	<u>607,384</u>	<u>31,661</u>	<u>518,444</u>
<u>TOTAL EXPENDITURES/EXPENSES</u>	<u>\$ 3,096,578</u>	<u>\$ 3,683,399</u>	<u>\$ 3,927,557</u>	<u>\$ (244,158)</u>	<u>\$ 4,279,343</u>

COMMISSIONERS OF ST. MICHAELS

SCHEDULE C

SUPPLEMENTAL INFORMATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

BUDGET AND ACTUAL

ENTERPRISE FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Budget	Actual Amounts	Favorable (Unfavorable) Variance	Prior Year 6/30/15
<u>Operating Revenues:</u>				
Charges for Services	\$ 630,000	\$ 612,619	\$ (17,381)	\$ 652,294
Connection Charges	4,000	7,251	3,251	8,289
Capital Charges	5,000	2,200	(2,800)	2,200
Miscellaneous	-	3,190	3,190	1,668
Total Operating Revenues	639,000	625,260	(13,740)	664,451
<u>Operating Expenses:</u>				
Salaries and Benefits	211,990	202,014	9,976	205,831
Overtime	8,217	5,208	3,009	4,372
Administrative Salary Charge	45,648	45,648	-	34,583
Consulting, Legal, and Audit	1,600	-	1,600	1,600
Liability and Property Insurance	4,600	5,088	(488)	5,154
Office Expenses	1,000	5,947	(4,947)	660
Computer and Telemetry Software	9,000	1,617	7,383	13,850
Postage	1,500	502	998	1,177
Electric - Wells and Towers	23,500	18,550	4,950	18,038
Testing	7,500	4,688	2,812	4,032
Travel and Training	2,000	2,581	(581)	1,044
Dues and Subscriptions	500	500	-	400
Telephone	2,000	2,107	(107)	1,773
Uniforms	6,000	7,565	(1,565)	6,278
Vehicle Expense	2,000	3,997	(1,997)	1,984
Materials and Supplies	27,000	35,132	(8,132)	30,100
Maintenance on Arsenic System	50,000	8,463	41,537	3,409
Reimbursable	2,500	2,254	246	1,688
Miscellaneous	500	438	62	845
Maintenance of Generator #2	2,500	1,814	686	3,038
Arsenic Media Replacement	103,421	109,969	(6,548)	27,105
Arsenic Removal Administrative Fee	-	3,917	(3,917)	2,088
Debt Service - New Water Tower	63,136	11,796	51,340	12,448
Debt Service - Water Bonds (FHA)	19,029	21,271	(2,242)	23,863
Debt Service - Arsenic DOE	43,904	3,643	40,261	7,514
Depreciation	-	102,675	(102,675)	105,570
Total Operating Expenses	639,045	607,384	31,661	518,444
Operating Income/(Loss)	(45)	17,876	17,921	146,007
<u>Non-Operating Revenue:</u>				
Investments	45	499	454	56
Grant Revenue	-	1,123,103	1,123,103	-
Total Non-Operating Revenues	45	1,123,602	1,123,557	56
Income/(Loss) Before Transfers	-	1,141,478	1,141,478	146,063
Transfers	204,688	204,688	-	53,103
Change in Net Position	204,688	1,346,166	1,141,478	199,166
Net Position - Beginning	1,741,334	1,741,334	-	1,542,168
Net Position - Ending	\$ 1,946,022	\$ 3,087,500	\$ 1,141,478	\$ 1,741,334

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commissioners
Town of St. Michaels, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the Commissioners of St. Michaels, as of and for the year ended June 30, 2016, and related notes to the financial statements, which collectively comprise the Commissioners of St. Michaels' basic financial statements, and have issued our report thereon dated October 3, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commissioners of St. Michaels's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commissioners of St. Michaels' internal control. Accordingly, we do not express an opinion on the effectiveness of the Commissioners of St. Michaels' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commissioners of St. Michaels' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Lank, Johnson & Tull".

Seaford, Delaware
October 3, 2016